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C O N F I D E N T I A L SECTION 01 OF 03 SINGAPORE 000887

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SUBJECT: SINGAPORE'S OUTREACH TO THE MIDDLE EAST

Classified By: E/P Counselor Laurent Charbonnet, Reasons 1.4(b)(d)

1. (C) Summary: For the past year, the Singapore government has talked up a campaign to expand the country's economic and political ties with the Middle East. On the economic front, the GOS wants to expand trade and investment beyond its traditional partners. Politically, Singapore seeks to diversify its international relationships and earn goodwill from its domestic Malay/Muslim minority and its two large, Muslim-majority neighbors. As part of its campaign, Singapore is sponsoring an Asia-Middle East dialogue (AMED) in June (septel). Senior Minister Goh Chok Tong has taken on personal leadership for these initiatives. End Summary.

The Middle East: The "Missing Piece"

2. (SBU) Senior Minister Goh Chok Tong, who spearheaded Singapore's previous initiatives to move beyond ASEAN toward India, Europe, and Latin America, is now leading Singapore's effort to forge a closer relationship with the Middle East. As Prime Minister, Goh visited Egypt, Jordan, Bahrain, Turkey, Pakistan, and Iran. As Senior Minister, he recently concluded a six-day trip to Saudi Arabia, the first such trip in 20 years by a senior Singaporean political official. Goh has called the Middle East the "missing piece" in Singapore's external relations, and a region where he aims to devote more attention. In Singapore's highly coordinated government, no one person--even Goh--could push through an initiative that the government as a whole did not find useful. Nevertheless, Goh clearly is seen as a force pressing a sometimes reluctant government bureaucracy and business community on this initiative.

Forays into Islamic Banking

3. (SBU) Singapore's primary financial goal is to attract Middle Eastern wealth to Singapore banks. As chairman of the Monetary Authority of Singapore (MAS), SM Goh has stated that Singapore must tap new markets to maintain its role as a leading financial center in Asia. The Middle East offers attractive opportunities for both wealth management and capital market activities. Consequently, Singapore plans to introduce Islamic financial products and it will apply to become a full member of the Islamic Financial Services Board (IFSB), which sets international standards for Islamic financial regulators. MAS also plans to hold a conference on Islamic financial services by mid-year; a previously planned conference on Islamic banking was canceled in fall 2004 apparently because of a lack of interest. Goh and MAS officials concede that Singapore will never be a major Islamic finance center that can compete with long-established Islamic banking systems like Malaysia. Instead, Singapore is modeling itself after London, seeking to be an international banking center that offers Islamic financial products along with conventional products to foreign investors. In recent years, a number of banks began offering Islamic banking products in Singapore, including Citibank, HSBC, OCBC, and Deutsche Bank.

4. (SBU) MAS does not plan to change Singapore's regulatory framework to encourage Islamic banking. Individual financial institutions will be obliged to hire their own experts in the target market to design financial products that comply with Islamic law, in part because Singapore does not have a pool of experts on the subject. The Islamic Religious Council of Singapore (MUIS) had hoped that Singapore would adopt the Malaysian model, with a central, government-mandated religious body certifying that all Islamic financial products are shariah-compliant, and is disappointed that the GOS has decided to leave the question to the market. MUIS foresees limited local interest in Islamic financial products since Singapore Muslims are accustomed to using conventional banks, says its vice president.

Barriers to Entry

5. (U) As a well-established oil-trading center and petro-chemical hub, Singapore is urging Middle Eastern companies to use it as their Asia-Pacific axis and gateway to the region. Spurred by Malaysia's success in attracting big-spending Arab visitors, the GOS is also promoting tourism, especially for medical services. But Singapore's

effort to attract Arab tourists and investors is hampered by tough visa rules. The Saudi ambassador in Singapore has complained in the press that it is difficult for Saudis to get visas due to GOS security concerns. Goh has promised to make it easier for Saudis to get visas, but MFA says the GOS cannot compromise on the fundamental issue of security. Education is one key sector that Singapore doesn't seem to be promoting in the Middle East, despite its effort to become a "global schoolhouse." GOS officials say this is "a sensitive issue;" Malaysia and Indonesia might not like the competition for Muslim students. In addition, the GOS may be concerned about exposing its population to more conservative Arab Muslims.

Lukewarm Response from Private Sector  
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16. (U) Singapore is also marketing its expertise in infrastructure development, such as ports and airports, telecommunications, and e-government, sectors where it faces significant competition in the Middle East. International Enterprise Singapore (IE), which is responsible for promoting overseas expansion by Singapore firms, notes that many Singaporean firms are too small to compete with regional corporations or large American and European companies in the Middle East. While IE Singapore is realistic about the limited prospects in the region, it has to put together business delegations in support of SM Goh's initiative. The GOS is trying to get Singapore businesses to expand beyond their traditional base in U.A.E. (home to more than 400 Singapore companies) by running informational seminars and organizing trade delegations to countries like Bahrain, Oman, and Turkey. It is trying to "create a buzz" about the Middle East, in the same way it tried to stir up "India fever" in the 1990s.

17. (U) Despite a spate of articles in the government-linked press about business opportunities in the Middle East, Singapore businessmen remain reluctant to invest there. They prefer to focus on China and India, two large, nearby economies where they don't face daunting language barriers and cultural differences. They are also put off by the media images of violence and upheaval in the region, GOS officials note. Those who do go to the Middle East choose activities like franchising, trading, or selling services to avoid risking their capital. One advantage the Middle East has, IE officials explain, is the abundance of capital so Singapore investors do not have to finance the majority of a project, as they do elsewhere.

More FTAs  
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18. (SBU) Having reached the limits of expansion with closer trading partners, Singapore is looking further afield. The GOS is attempting to expand its trade relations with the Middle East by negotiating FTAs. In May 2004, Singapore signed a free trade agreement and bilateral investment treaty with Jordan, its first FTA in the Middle East. Jordan's parliament has not yet ratified the FTA. Singapore is negotiating FTAs with Bahrain, Egypt, and Kuwait. IE officials believe that an important benefit of the negotiation process is that it reveals how policy is made in a country, and officials get to know their counterparts better. Middle East trade -- 80 percent of it in petro-chemical products -- only accounts for 5 percent of Singapore's total trade; Ministry of Trade and Industry officials do not expect this to increase anytime soon.

A Friend to All  
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19. (C) Singapore is occasionally criticized domestically and regionally for its close relationship with the United States. The GOS, although it values highly those U.S. ties, wishes to earn the goodwill of its ethnic Muslim minority and its two large Muslim-majority neighbors, Malaysia and Indonesia, by forging ties with the Arab world. MUIS, vice-president (protect) said the Islamic council is extremely pleased and surprised by the GOS overtures toward the Middle East, although they believe the initiative is motivated by a desire to make money. At the same time, the MUIS official said Goh's outreach is, in part, an attempt to counter Minister Mentor Lee Kwan Yew, whose harsh views of Islam and Muslims have antagonized Muslims over the years.

110. (C) The GOS outreach is also motivated by security concerns. According to a high-level Muslim journalist who has traveled with SM Goh to the Middle East, Singapore's leaders are "terrified" of political Islam and the spread of Arab-style Islam to Singapore and the rest of Southeast Asia. In the past, the GOS tried to counter Wahabiist tendencies by urging its Muslim minority to look to Indonesia as a model. But many local Muslims continue to see Saudi Arabia as the ideal. Consequently, the GOS has to deal with Saudi Arabia directly to better understand it, according to the journalist. The GOS is carefully promoting political and

economic reform in Saudi Arabia and the Middle East. Speaking at the Jeddah Economic Forum, SM Goh explained the Singapore model of development, which is based on meritocracy, tolerance, honest government, openness to new ideas, pragmatism, and developing human resources--including women. Singapore is also sponsoring an Asia-Middle East dialogue (AMED) in June (septel).

#### Expanding Diplomatic Ties

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11. (SBU) In connection with Goh's trip to Saudi Arabia, the GOS announced that it will appoint a resident ambassador to the kingdom. The GOS also plans to increase its use of non-resident ambassadors based in Singapore to cover the Middle East, though it is reluctant to open more missions. MFA will soon set up a separate Middle East directorate. Most Singapore universities are expanding course offerings on Islam and the Middle East, and government leaders are urging Singapore's Muslim citizens to study Arabic so they can do business in the Middle East.

12. (C) Comment: GOS officials concede that Singapore is "very late" in focusing on the Middle East. They have few concrete results to show from their outreach efforts so far, although they are still in the early stages. GOS officials admit that they have been given few, if any, targets to reach in the Middle East beyond trying to establish footholds across the region. Efforts to establish an Islamic banking presence appear similarly modest, as evidenced by the lack of corporate interest in last year's aborted Islamic banking conference. SM Goh's personal involvement, however, will prevent this GOS initiative from losing momentum, for now. While the business prospects appear limited, at least in the near term, Singapore will continue to seek opportunities in the Middle East, not only to diversify its sources of economic wealth, but to enhance its overall security interests by fostering warmer ties with, and economic development in, Muslim countries, both in the Middle East and closer to home. End Comment.

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